STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

Coordinated Compensation Proposal

for

Fiscal Year 2023 (10/1/22–9/30/23)

Recommendations for Nonexclusively Represented Employees in the State Classified Service for the Fiscal Year Beginning October 1, 2022

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Introduction

Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel (the Panel). Rule 5-1.3 charges the Panel as follows:

> The coordinated compensation panel shall send a recommended coordinated compensation plan for all nonexclusively represented classified employees to the civil service commission. The panel shall consider negotiated collective bargaining agreements, any impasse panel recommendations, and any recommendations of the employer or employees.

Regulation 6.06 establishes a process for employee participation and guidelines for the Panel in making its recommendations. Under the regulation, participants in the coordinated compensation plan process include the Office of the State Employer (OSE) and organizations granted limited-recognition rights under rule 6-8.3. The following limited-recognition organizations participated in this year's process:

- Association of State Employees in Management (ASEM)
- Michigan Association of Governmental Employees (MAGE)
- Michigan State Police Command Officers Association (MSPCOA)

Nonexclusively represented employees (NEREs) who are not members of limited-recognition organizations may also participate upon leave granted by the Panel. No employees requested to participate this year.

The Panel held a hearing on November 2, 2021. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the parties' arguments and submissions, the Panel offers the following summary and recommendations to the Commission.

Economic Overview

Consistent with regulation 6.06, which calls for the Panel to consider “the current and forecasted financial condition of the State” in making its recommendations, the Panel received evidence on fiscal year (FY) 2023 revenue forecasts and budget projections as part of the OSE’s presentation. Staff of the Department of Treasury and State Budget Office testified that:

- The U.S. economy continued to recover from the economic impact of the COVID-19 pandemic, with U.S. gross domestic product in the third quarter of 2021 above pre-pandemic levels.
- Michigan has recovered about two-thirds of the approximately 1,055,000 jobs lost since the start of the pandemic, and its unemployment rate in September 2021 was lower than the U.S. rate.
- Consensus revenue forecasts for the state’s General Fund and School Aid Fund since May 2020 have consistently been overly pessimistic, with subsequent forecasts revised upward by billions of dollars. For FY 2021, for example, the May 2020 revenue estimate was $22.5 billion; the May 2021 estimate increased the forecast to $26.3 billion. Overall revenue for FY 2021 has been about $2.3 billion above even the higher May 2021 estimate.
- Part of these increases were because of significant, unexpected tax-revenue increases. FY 2021 year-to-date individual quarterly income-tax payments are $336 million above the May 2021 estimate, individual annual income-tax payments are $777 million above the estimate, and corporate income tax collections are $306 million above the estimate. Sales and use tax collections for FY 2021 year-to-date exceed the estimate from May 2021 by over $600 million.
- Tax collections for FY 2023 were forecast in May 2021 to be slightly below those for FY 2021, partially because of uncertainty over how much recent economic strength will be ongoing as opposed to a one-time spike. Overall, General Fund-General Purpose and School Aid Fund revenues for FY 2023 were forecast in May 2021 to be $27.8 billion. Despite this uncertainty, based on what is known today, recent revenue forecasts appear too low.

- The state budget has stabilized since the start of the pandemic. While the FY 2020 budget was supplemented with federal funds and spending freezes in the early stages of the pandemic, revenue exceeding estimates in both FY 2020 and FY 2021, plus portions of certain one-time federal money able to be carried forward into FY 2021, meant that no further spending cuts were needed in either FY 2020 or FY 2021.

- The total FY 2022 budget is a 13% increase from FY 2021. A one fiscal-year quarter of federal COVID-19 federal medical assistance relief expansion funds increased a small portion of the FY 2022 budget spending. None of the FY 2022 revenue projections is based on one-time federal COVID-19 relief funds.

- With approximately $2 billion of surplus funds and with the overall positive health of revenue estimates, the state was able to deposit $500 million in the budget stabilization fund for FY 2022, which is the largest deposit in the state's history. The budget stabilization fund's balance surpassed 5% of combined General Fund and School Aid Fund revenue for the first time in over 20 years.

- In FY 2023, without any additional supplemental expenditures, the General Fund balance is expected to grow by $450 million, and ongoing revenue is expected to grow by $600 million.

MAGE argues that state revenues were over $3.58 billion greater than in 2019-20 and the state has a nearly $5 billion budget surplus in FY 2022.

Proposals and Positions

I. Wages and Benefits

A. Wages

1. OSE Proposal

The OSE recommends a base-wage increase of 5% effective October 1, 2022, the beginning of FY2023. This proposal is consistent with tentative agreements for FY 2023 wages negotiated in six of seven collective bargaining agreements that OSE recently entered into with exclusive representatives. The seventh contract is in impasse over one non-economic provision, with the parties having agreed to a 5% base wage increase in FY 2023. The OSE notes that there has not been a 5% base wage increase for NEREs since 1987.

The OSE estimates that the proposed 5% increase for NEREs in FY 2023 would cost $104.1 million.

2. ASEM Proposal

ASEM concurs with the OSE's proposal for FY2023.

3. MAGE Proposal

MAGE requests an 8% base wage increase for FY 2023 and a 2% lump-sum payment. MAGE argues that recent budget deficits caused an inability to generate adequate wage increases, which resulted in many agencies having recruitment and retention problems. The Consumer Price Index has been increasing at about 5%, suggesting that any pay increase less than 5% would essentially be cutting employees' pay. The current multi-billion-dollar budget surplus provides an excellent opportunity to recognize NEREs for their hard work. MAGE also argues that the state competes with many other employers for employees. Not keeping wages competitive risks losing employees to these other employers. MAGE also argues that, if the Panel recommends approving the OSE's proposal on base wages, the panel at least recommend approving a 2% lump sum payment for NEREs.

4. OSE Response

The OSE opposes MAGE's proposal. MAGE appears to believe that the state's economic condition alone is sufficient to grant NEREs a higher base-wage increase than exclusively represented employees are expected to receive. Additionally, as shown by MAGE's exhibit #3, much of the state's current positive economic measures comes from "one-time" money that "cannot easily be used to launch new programs that require ongoing annual funding." The cost of MAGE's proposal in FY 2023 would be $166.5 million for the 8% base wage increase and $43.7 million for the 2% lump sum. The total cost in FY 2023 would be $210.2 million, which is more than double the estimated total cost of the OSE's proposal.

According to OSE, the Panel has previously "recognized the need for equitable treatment of NEREs" as compared to exclusively represented employees. MAGE has not provided compelling evidence of a need for NERE pay increases for FY 2023 greater than those OSE has suggested.

5. MSPCOA Response

The MSPCOA concurs with the OSE's proposal for FY 2023.

Panel Recommendation

During the current round of bargaining, the OSE has reached voluntary agreements including a 5% general-wage increase for FY 2023 for six of seven contracts, with the seventh contract currently at impasse over a non-economic issue. The Panel has previously recognized the need for equitable treatment of NEREs. The Panel further finds that, given the positive projected economic conditions and the overall health of the state budget, the OSE's proposal is reasonable. The Panel **recommends** adopting the OSE's proposal.

B. Group Insurances

1. OSE Proposal

The OSE proposes several changes to group insurance coverages beginning January 1, 2023. OSE notes that the Unions have tentatively agreed to each proposal:

- In the State Health Plan PPO, eliminating the $10 telemedicine copay for in-network providers and covering male sterilization at 100%.
- In the State Dental Plan and Premier, increasing coverage for sealants for children under 14 from 70% to 100% and increasing lifetime orthodontics coverage from $1,500 to $1,750.
- In the State Vision Plan:
  - Extending the $1,000 lifetime Lasik reimbursement to spouses of active employees.
  - Increasing in-network coverage of non-medically necessary contact lenses from $130 to $150.
  - Increasing employees' eligibility for glasses or contact lenses to once every 12 months, instead of every 24 months or every 12 months with a prescription change.
  - Eliminating the $7.50 frames copay.
  - Covering computer glasses if requiring a prescription different from the normal prescription, regardless of the time spent on the computer.

The OSE also proposes eliminating the Catastrophic Health Plan effective January 1, 2023, as agreed to by the Unions with tentative agreements on group insurances. Only 50 NEREs are enrolled in this plan. Enrolled employees do not appear to understand that it is limited to hospitalization-only overage, which discourages routine care. Its deductible is at least one-month's salary. It is also considered primary coverage, so, even if employees have coverage under another plan, they must still pay the entire deductible before the other coverage pays unless the other coverage lacks coordination-of-benefits rules.

The OSE requests no modifications to the HMO, group life insurance, or long-term disability plans.

Panel Recommendation

As with wages, exclusively represented employees agreed with the OSE's proposed changes to group insurances. The Panel **recommends** adopting all the OSE's proposals, including on telemedicine copays, sterilization, sealants, lifetime orthodontics limits. Lasik, contact lens coverage limit, contact lens and glasses eligibility, frames co-pay, computer glasses, and eliminating the Catastrophic Health Plan.

C. Special Pay Increases

In addition to comparisons with other workforces, the standards in regulation 6.06 include consideration of "the continuity and stability of employment." When seeking special pay adjustments, evidence of a strong program need, such as difficulty recruiting and retaining qualified candidates, should accompany a request.

1. MAGE Registered Nurse Manager Recruitment and Retention Proposal

MAGE requests a 5% special wage increase for all Registered Nurse (RN) Managers and Supervisors for each of the next three fiscal years, on top of any other base wage increase for NEREs. MAGE argues that RN Managers and Supervisors often earn less than the RNs they supervise, and that there is an ongoing shortage of RN Managers and Supervisors to care for patients in state hospitals. MAGE refers to anecdotal evidence of RN Managers recently quitting. This shortage, according to MAGE, can only be remediated by increasing compensation to compete with other employers who are also experiencing shortages of these positions for RN Managers. MAGE also offered additional anecdotal evidence of other employers seeking candidates for similar positions by offering signing bonuses of up to $10,000. MAGE argues that even if this special wage increase were to be granted, the state will still be paying less than other employers, including the federal Veterans Affairs hospitals.

The OSE opposes MAGE's proposal. The only evidence that MAGE presented in support of its proposal focuses on RN compensation, not the compensation of RN Managers. Even if base rates of compensation of RNs and RN Managers were comparable, such comparison does not show a sufficient basis for recommending a special base wage increase. The Panel has previously said that a proponent of a special wage increase must show evidence of a strong program need, such as a difficulty recruiting and retaining qualified candidates. In 2018, the Panel noted that MAGE had "not provided quantitative data on RN Manager retention and recruitment necessary to justify either" a special base-wage increase or mandated agency participation in recruitment and retention bonus programs. Again, MAGE has not demonstrated a recruitment problem. MAGE's proposed 5% special wage increase would cost $2.4 million in FY 2023.

The OSE notes that the $5,000 signing-bonus option remains available. If an agency offered the full $5,000, the prorated hourly increase for the first year would likely exceed the 5% MAGE proposes for FY 2023.

Panel Recommendation

As in past years in which it sought similar pay increases, MAGE has not provided specific evidence showing a difficulty with recruiting RN Managers. The comparative salary data that MAGE provided compares wages for non-supervisory nurses, which is of limited value in comparing and evaluating manager salaries. The employing departments have also not requested additional compensation for RN Managers to lessen any recruiting or retention problem. The discretionary signing-bonus program remains available to help with any recruitment issues. The request for a recommendation to increase pay in each of the next three years also exceeds the Panel's authority, as the current process is only for FY 2023.

The Panel notes that the parties may desire to investigate proposals to re-implement a discretionary retention bonus for RN Managers, like the program that ended in 2018, to be available for exigent circumstances, but MAGE has not provided the Panel with sufficient evidence to establish or mandate the use of such a benefit. The Panel **recommends** rejecting the proposals.

2. MAGE Physician Manager Proposal

MAGE requests a 15%[1] special wage increase for all Physician Managers to more closely track the pay rate of Psychiatrist Managers. MAGE argues that wages of Physician Managers have lagged those of comparable positions in Illinois, Minnesota, Nebraska, and Wisconsin. Physician Managers perform a difficult job with often difficult patients. Physician Managers' wages have also fallen behind those of the state's Psychiatrist Managers, who were moved into pay-for-performance at the end of 2017 and whose maximum pay rate was increased effective October 2018. The difference between Psychiatrist Managers' and Physician Managers' pay is now about $20 per hour. There are currently four Physician Manager positions, one of which is vacant. MAGE argues that Physician Managers must often perform Physicians' duties in addition to their own because of ongoing staffing shortages. The inequity of pay with Psychiatrist Managers and their additional duties have caused a decline in morale among Physician Managers. MAGE also argues that any pay-for-performance added to managers would also accrue to all managers, which would exacerbate the pay difference between Psychiatrist Managers and Physician Managers.

The OSE opposes MAGE's proposal. The Department of Health and Human Services (DHHS), which employs all four Physician Managers in the state service, has not requested a special pay increase for these positions. The Commission recently approved the DHHS's request to move Physician Managers into the pay-for-performance program, effective October 31, 2021, which will allow the DHHS to award employees in these classifications with lump-sum awards or base pay increases, subject to the limits in regulation 5.07.

Panel Recommendation

The Panel appreciates the quantitative evidence of apparent pay discrepancies between Physician Managers in the classified service and comparable positions in other states that MAGE provided in support of proposal.[2] The data, however, have not shown that any discrepancies have also caused a recruitment or retention problem, nor has the DHHS indicated that such a problem exists. As the Panel previously stated, the DHHS requested in 2017 to increase Psychiatrist Manager pay when there was a 49% vacancy rate in those classes. Here, MAGE refers to only one vacant Physician Manager position and there is no indication

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[1] MAGE's position statement incorrectly requested a 5% increase for Physician Managers and was corrected at the hearing.

[2] The panel requests that when parties are summarizing data in exhibits or presentations that they include a specific citation to the website, table, or other source used.

that the agency is trying to fill it. The Panel cannot find that a single vacancy indicates a recruitment problem requiring a special wage increase.

The Panel also notes that the impact of the recent DHHS action increasing Physician Manager's potential pay through pay-for-performance participation must be evaluated before the need for any additional pay increase can be determined. If recruitment and retention in these classes becomes problematic and the DHHS determines such concerns may be resolved through increased pay, it may possibly designate these positions for critical-position premium pay under rule 5-6.12. If these measures prove to be insufficient to the DHHS to alleviate any such recruitment or retention concerns, the Panel would be interested in reconsidering a similar request in a later year's process. In the interim, the Panel **recommends** rejecting the request for a special pay increase for Physician Managers.

3. MAGE RN Managers and Supervisors Attendance Incentive Pilot Program

MAGE requests for RN Managers and Supervisors in all state departments the same attendance pilot program granted to represented employees. It attaches a letter of understanding, which MAGE states will allow rank-and-file employees to convert unused sick leave credits to compensatory time, if there are no unscheduled absences during certain periods. MAGE argues that this will lessen absenteeism.

MAGE alternatively requests that the retention bonus pilot previously in effect for RN Managers continuously employed from September 30, 2017, through September 30, 2018, be reopened and that the Commission mandate agencies to participate.

The OSE points out that the letter of understanding to which MAGE referred and included in its exhibits is a retention bonus pilot program for RNs in the Michigan Department of Corrections (MDOC) that will end before FY 2023 and be evaluated for effectiveness. It does not allow exclusively represented employees to convert unused sick leave credits to compensatory time. There is no current provision to continue the pilot. The OSE expects to have data on the pilot program in August 2022. As stated above, MAGE has not shown a need to address recruitment and retention of RN Managers and Supervisors, and the OSE cannot support extending the retention bonus pilot program as requested. The OSE also cannot support mandating agencies to pay retention bonuses to RN Managers and Supervisors. The OSE notes that state agencies remain able to pay eligible RN Managers the discretionary signing bonus approved under the existing rule. The OSE estimates the cost of MAGE's mandatory retention payment at about $2.2 million for FY 2023.

Recommendation.

As discussed in C.1., MAGE has not shown recruitment or retention problems for these classes. If data from the MDOC's pilot retention bonus program show promising results, the Panel would be interested in having that data presented during a future CCP process and possibly considering the appropriateness of a similar program for RN Managers. In the interim, the Panel **recommends** rejecting MAGE's proposal.

4. MAGE's Proposed Special Wage Increase for NERE Correction Employees in Prisons and Forensic Center

As argued during previous CCP cycles, MAGE contends that rank-and-file employees are reluctant to promote to supervisor positions and not be overtime eligible. To help alleviate this continuing issue, MAGE requests a 5% special wage increase for all NEREs working in prison facilities supervising employees in the Security Unit and for all Forensic Security Supervisors in the Center for Forensic Psychiatry in addition to the 8% base wage increase requested for all NERE employees. MAGE also requests the same retention bonus program agreed to for exclusively represented employees. MAGE notes that exclusively represented employees in the Security Unit have agreed to a retention incentive pilot program in the first six months of calendar-year 2022. MAGE argues that this will exacerbate the pay compression problem between rank-and-file employees and their supervisors.

The OSE does not support MAGE's proposal. The OSE believes the letter of understanding to which MAGE refers is with the Michigan Corrections Organization that would establish a six-month pilot for Security Unit employees to receive a biweekly pay supplement from January to July 2022 for each pay period that the employee works at least 80 hours. The Commission has not approved the letter of understanding and is not yet in effect. It will end before FY 2023 begins.

The OSE notes that MAGE has again made allegations, without proof, of Corrections Officers refusing to promote in favor of working-out-of-class as evidence of a need for a special wage increase for NEREs working in prisons and Forensic Security Supervisors at the DHHS's Center for Forensic Psychiatry. Whether to apply for a promotion is a personal choice, as is whether to accept a working-out-of-class assignment. Working-out-of-class assignments are viable alternatives to making an appointment in many situations and permitted by Commission rule 4-5.

MAGE has also not explained why all NEREs employed in prisons and Forensic Security Supervisors at the CFP would warrant the special pay increase. Neither the MDOC nor the DHHS have contacted the OSE with recruitment and retention concerns for these classes. The OSE estimates MAGE's proposal for a 5% special wage increase would cost $9 million for FY 2023.

Panel Recommendation

This is the sixth time in nine years that MAGE has requested some action to incentivize Corrections Officers to promote to supervisors. This sixth request has expanded to include all NEREs working in prisons and the Center for Forensic Psychiatry supervising Security Unit employees. It will also be the sixth time in nine years that the Panel has rejected the request while imploring MAGE to present new or compelling evidence that special pay increases are necessary to solve a demonstrated problem. The MDOC and DHHS have not indicated any recruitment or retention problem. There remains no evidence that a recruitment or retention problem exists in the NERE classes working in the prisons or Center for Forensic Psychiatry or that a special pay increase is otherwise needed.

Regarding the pilot program recently agreed to by Security Unit employees, the Panel would consider data on any impact that program has on attendance, retention, or other employment factors. If shown to have had positive results, the Panel could consider recommending a similar program for NERE classes supervising these employees in a future CCP process.

The Panel **recommends** rejecting MAGE's proposals for a base wage increase and biweekly bonuses for NEREs working in prisons and the CFP.

II. Miscellaneous

A. Professional Development Fund Contribution

1. OSE Proposal

The OSE recommends continuing the NERE Professional Development Fund and adding $200,000 of funding in FY 2023. NEREs requested almost $200,000 in reimbursements during the past fiscal year. ASEM agrees with the OSE's proposed reduced contribution to the fund, based on employees' past use.

2. MAGE Proposal

MAGE requests adding $250,000 to the fund as was done in the past.

3. OSE Response

The OSE asserts that while $250,000 was added for FYs 2016, 2017, and 2018, $200,000 was annually added to the fund before FY 2016 and after FY 2018. At no time has a request for reimbursement from the fund been denied for insufficient funds. The OSE expects $200,000 will be enough for FY 2023.

Panel Recommendation

Adding $200,000 to the fund over the past several years has shown to be adequate. The Panel **recommends** adopting the OSE's proposal.

B. Parking Billing Changes

ASEM Proposal

ASEM requests that the Department of Technology, Management, and Budget (DTMB) allow employees to pay for parking by the day instead of by the pay period to better accommodate the large number of state employees working hybrid schedules. It suggests the state generate additional revenue by opening underused lots to the public.

The OSE opposes ASEM's proposal. According to OSE, the Management and Budget Act requires the DTMB to establish, operate, and maintain parking for state buildings and DTMB-operated facilities and to charge and collect fees for use of those facilities. Maintaining these lots requires fees, which are set at specific amounts to cover associated maintenance costs. Opening these lots to the public would create additional costs, including purchasing and servicing ticket booths or payment kiosks. Opening the lots to the public would also limit the number of spaces available to state employees. The DTMB has explored opening up state lots for rent to the public, but as of now the DTMB's position is that equipment costs and other outlays make this option infeasible.

Panel Recommendation

While it may raise interesting considerations, because the method of billing for state-owned parking lots is not part of the compensation plan, ASEM's request is outside the Panel's jurisdiction. Accordingly, the Panel **recommends** rejecting ASEM's proposal to modify parking billing.